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SUBJECT: NEPAL: STEEP HIKES IN PRICES OF PETROLEUM PRODUCTS

Government Raises Fuel Prices

11. (U) On June 9, the Government of Nepal (GON) directed the state-owned Nepal Oil Corporation (NOC) to raise the price of petroleum products; including petrol, diesel, kerosene and cooking gas. (NOTE: The price of aviation fuel was already increased twice in the last two months, first on May 13 and then again June 5.) The price increases range from 25 percent for petrol to 10 percent for cooking gas. The GON's decision to hike the prices came less than a week after India raised fuel prices in order to cope with the rising price of oil in the global market. The new price will most likely help improve supplies; however, according to local press reports, even with the price increase the NOC is still estimated to lose NRs 1.5 billion (roughly USD\$23.5 million) per month. In addition to the price increase the GON also announced that it would reduce taxes on petroleum products and would open up the sale of petroleum products to the private sector. One day later, on June 10, the Federation of Nepal National Transport Entrepreneurs (FNNT) announced increases in transportation fares ranging from 30 to 40 percent.

Comment

12. (U) This is the largest price increase that the GON has yet attempted. As the effects of the increase trickle down into the price of commodities and transportation, it will have a significant impact on many. Yet in the four days following the price increase, protests and strikes have been sporadic and confined largely to student groups and youth political wings. It seems clear that people are tired of spending 5 or 6 hours in fuel queues and watching the prices soar in the booming black market, and it is also clear that they understand the long-term impact of businesses having to close down. Yet, the NOC's troubles are still not over. Even with this price increase and the GON's promise to lower taxes, the NOC is still facing unmanageable losses, corruption, mismanagement and pilferage. The GON's announcement that the petroleum market will be opened to the private sector is in reality more rhetoric than a real indication of reform. The Indian Oil Corporation (IOC) and the NOC have government-level contracts granting IOC a

monopoly on the supply of petroleum products from India, so it is unclear what role the private sector will be able to play. Attempts to import petroleum products from China and other third countries are likely to resurface, but Nepal's geography and lack of infrastructure (including a refinery, pipeline, roads, etc.) will make these imports unrealistic for years to come. In the meantime, there are still profits to be made in the black market, at the pumps (with weak regulation over the quality of the fuel sold or the calibration of the fuel pumps) and for the transport operators, who unilaterally instituted fare increases that do not necessarily correlate with the rise in fuel prices.

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